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Via E-File

March 30, 2021

B.C. Utilities Commission
Suite 410 - 900 Howe Street
Vancouver, BC V6Z 2N3

File No.: 4.2 (2021)

Attention: Patrick Wruck
Commission Secretary

Dear Mr. Wruck:

**Re: Pacific Northern Gas Ltd.
Application for a Certificate of Public Convenience and Necessity for the
Salvus to Galloway Gas Line Upgrade Project
Applicant's Reply Argument**

In accordance with the regulatory timetable established under BCUC Order G-23-21, accompanying please find the Reply Argument of Pacific Northern Gas Ltd. on its application regarding a Certificate of Public Convenience and Necessity for the Salvus to Galloway Gas Line Upgrade Project.

Please direct any questions regarding the application to my attention.

Yours truly,

Original on file signed by:

Verlon G. Otto

Encl.

PACIFIC NORTHERN GAS LTD.

**APPLICATION
to the
BRITISH COLUMBIA UTILITIES COMMISSION**

**FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY
THE SALVUS TO GALLOWAY GAS LINE UPGRADE PROJECT**

APPLICANT'S REPLY ARGUMENT

March 30, 2021

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1. OVERVIEW

1. Pursuant to the Regulatory Timetable set out in Appendix A to Order G-23-21,¹ on March 9, 2021 Pacific Northern Gas Ltd. (PNG) filed its final argument (the PNG Final Argument) on its application for a Certificate of Public Convenience and Necessity (CPCN) for the Salvus to Galloway Gas Line Upgrade Project (Project) (the Application).
2. The registered Intervener, British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Center, known collectively as BCOAPO et al. (BCOAPO), filed its final argument on March 23, 2021 (the BCOAPO Final Argument).
3. BCOAPO is supportive of the Project (which is sometimes referred to in the BCOAPO Final Argument as the STG Project). The BCOAPO Final Argument sets out detailed reasoning in this regard.
4. Among other points, BCOAPO states in the BCOAPO Final Argument that:
 - (a) "[t]here is sufficient, persuasive evidence on the record regarding the need for the project, the identification and evaluation of the proposed alternatives, and the reasonableness of the project's definition and cost estimate" (an affirmation found at various junctures in the BCOAPO Final Argument);²
 - (b) "[o]verall, BCOAPO is satisfied with the information on the record with respect to the steps and assessment of environmental and archeological impacts undertaken to date and those planned as the project progresses";³
 - (c) "[o]n balance, PNG appears to have undertaken appropriate steps to be proactive, identify impacted stakeholders or agencies that it requires approval from to proceed, provide information, respond to questions, encourage feedback and incorporate that feedback into its project planning";⁴

¹ Exhibit A-6.

² BCOAPO Final Argument, pp. 2, 6, 9, 12.

³ BCOAPO Final Argument, p. 17.

⁴ BCOAPO Final Argument, p. 19.

- (d) “BCOAPO is satisfied that PNG has expressed a willingness and commitment to continue to engage and consult with stakeholder groups (including the Indigenous communities and general public) that are most impacted by the STG Project”;⁵ and
- (e) specifically, as well, “BCOAPO accepts PNG’s proposals with respect to the capitalization of project costs, net salvage and Allowance for Funds Used During Construction (AFUDC)”.⁶

5. In this Reply Argument, PNG does not deal further with the supportive points reflected above and more generally through the BCOAPO Final Argument. Rather, PNG focuses its attention on addressing:

- (a) BCOAPO’s recommendations to the BC Utilities Commission (BCUC) for directions to PNG; and
- (b) a limited number of additional points noted in the BCOAPO Final Argument, to the extent they deal with matters of substance.

6. Unless otherwise specified, capitalized terms that are used in this Reply Argument are as defined in the PNG Final Argument. Further, PNG confirms that it continues to rely on the whole of the Application, the accompanying evidentiary record, and the PNG Final Argument, in asking the BCUC to grant the relief sought in the Application.

2. MATERIAL CHANGE REPORTS AND SEMI-ANNUAL REPORTING

7. BCOAPO asks that the Panel direct PNG to:

- (a) “report on any material changes to the Project generally but also to the Class 3 cost estimate, within 30 days of the date on which the material change occurs and on a semi-annual basis”; and
- (b) “report on any material changes within 30 days and provide semi-annual

⁵ BCOAPO Final Argument, p. 19.

⁶ BCOAPO Final Argument, pp. 2, 14.

reporting on moderate to high environmental and archeological impacts”.⁷

8. BCOAPO envisions that certain information related to or stemming from Indigenous engagement would be included in the above reports. BCOAPO notes that it sees “considerable value in the Utility providing the same level of reporting in regards to its engagement with Indigenous groups affected or potentially affected by the Project.”⁸ In this regard, BCOAPO asks that the Panel direct PNG to file:

- (a) “information with respect to its on-going Indigenous engagement activities, feedback received and related project outcomes, as part of Semi-Annual Progress Reports on the STG Project”⁹; and
- (b) “Material Change Reports on any material changes to the [STG] Project scope or costs precipitated by Indigenous feedback and concerns raised, within 30 days of the date on which a material change occurs, based on criteria specified by the BCUC”.¹⁰

9. PNG does not object to being required to report to the BCUC in the manner outlined in paragraphs 7-8 above. The Project is a significant one and BCOAPO’s request aligns with monitoring and recording that PNG would be undertaking in any event.

10. BCOAPO also asks that “the Panel define ‘material’ in its order in order to ensure there is no confusion that might result in PNG being deemed as over or under reporting changes to the Project or its cost estimate”.¹¹ PNG suggests that defining materiality for reporting purposes would be prudent and would provide clarity of expectations. PNG observes that the BCUC has done so in the recent FortisBC Inc. application for its Kelowna Bulk Transformer Addition Project CPCN,¹² and would not object to similar reporting metrics for the Project.

⁷ BCOAPO Final Argument, pp. 4, 18.

⁸ BCOAPO Final Argument, p. 4.

⁹ BCOAPO Final Argument, p. 20.

¹⁰ BCOAPO Final Argument at p. 20.

¹¹ BCOAPO Final Argument, p. 4.

¹² Decision and Order C-4-20 (November 30, 2020), p. 35, where a “material change” was defined as a change in the project plan that would have a significant impact on the schedule (by 3 or more months), cost (by 10 % or more) or scope (from that per the application).

3. BRITISH COLUMBIA'S ENERGY OBJECTIVES

11. BCOAPO suggests that PNG may wrongly view British Columbia's energy objectives other than (k) ("to encourage economic development and the creation and retention of jobs") as inapplicable "to its operations", and recommends that the Panel "take this opportunity to direct PNG to acknowledge and address to the extent possible, the issues, risks and opportunities associated with climate change and decarbonisation policies in its future CPCN Applications and long-term resource plans."¹³

12. Respectfully, BCOAPO's position appears to stem from a misreading of the Application.

13. Neither in the Application nor more generally has PNG taken the position that the only energy objective applicable to a natural gas utility is (k). Correspondingly, in other applications, PNG has addressed other energy objectives as well where it considers them to be applicable. This is reflected in the BCUC's recent decisions on PNG applications involving such matters as resource planning and energy conservation programs, which note PNG's position on, and address, other energy objectives.¹⁴

14. What PNG said in the Application presently before the BCUC is that:

(a) "[s]ections 6 and 19 of the *Clean Energy Act* are related to electricity and are not applicable to the Application."¹⁵ The fact that sections 6 and 19 apply to electric utilities only is apparent from the wording of those sections and has been expressly recognized by the BCUC.¹⁶

(b) "[i]n reviewing the applicability of the British Columbia Energy Objectives contained in section 2 of the *Clean Energy Act*, PNG has determined that only

¹³ BCOAPO Final Argument, p. 7.

¹⁴ For example, please see pp. 10-11 of the recent Pacific Northern Gas Ltd. and Pacific Northern Gas (N.E.) Ltd., Energy Conservation and Innovation Program Funding Application – Decision and Order G-121-19 (June 6, 2019); and pp. 33-36 and 40 of Pacific Northern Gas Ltd. and Pacific Northern Gas (N.E.) Ltd. Application for Acceptance of 2019 Consolidated Resource Plan and for Acceptance of Energy Conservation and Innovation (ECI) Portfolio Funding for 2020 to 2022 – Decision and Order G-265-20 (October 23, 2020).

¹⁵ Exhibit B-1, p. 142.

¹⁶ The BCUC held that "[s]ections 6 and 9 of the CEA apply to electric utilities only and accordingly are not relevant to this Application": Terasen Utilities (Terasen Gas Inc., Terasen Gas (Whistler) Inc. and Terasen Gas (Vancouver Island) Inc.) 2010 Long Term Resource Plan – Decision (February 1, 2011), p. 16; FortisBC Energy Inc. 2017 Long Term Gas Resource Plan – Decision and Order G-39-19 (February 25, 2019), p. 3.

objective (k) is relevant to the Project.¹⁷ This statement was made specifically in relation “to the Project”, as the wording expresses, rather than PNG’s operations as a whole. PNG’s view makes sense given the fact that the Application relates specifically to the remediation of existing infrastructure. Similarly, objective (k) was the one highlighted in the recent FortisBC Energy Inc. application for its Inland Gas Upgrades Project CPCN.¹⁸

15. As to objective (k) itself, BCOAPO “takes no issue” with the proposition that the Project “will support the objective of encouraging economic development and the creation and retention of jobs during the construction phase”.¹⁹

16. Respectfully, this proceeding should not become the forum for BCUC directions or orders that PNG address certain other of British Columbia’s energy objectives in other applications. In this regard:

- (a) If PNG does not address an objective or subject in a future application that is relevant to that application, the BCUC would of course need to take that into account in determining whether or not to approve that particular application. That is the place in which to determine whether there has been an omission and, if so, to deal with its consequences.
- (b) However, in any event, the risk that BCOAPO points to (that PNG will ignore applicable objectives unless the BCUC intercedes) is not borne out either by the wording of the Application or by PNG’s conduct in other applications to which other energy objectives do or may relate.

4. PAST PNG REMEDIATION WORK

17. BCOAPO suggests, in passing, “knowledge” that PNG “fail[ed] to engage in prudent, cost-effective remediation in a timely manner” and suggests that this alleged failure “has not only possible safety and service ramifications, but also cost ones: the cost of such deferred work only increases over time and the cost to address a catastrophic failure is likely to

¹⁷ Exhibit B-1, p. 142 (underlining added).

¹⁸ Decision and Order G-12-20 (January 21, 2020), pp. 37-38.

¹⁹ BCOAPO Final Argument, p. 6.

be...well, catastrophic.”²⁰

18. This is not a fair characterization of the evidence, and indeed BCOAPO has not provided a footnote for the above statements. PNG’s evidence is that it proceeded prudently,²¹ and it also challenged the assumption that deferring certain work necessarily increases costs, or alternatively that deferral increases costs across the board. PNG addressed what appeared to be similar BCOAPO concerns in responding to BCOAPO IR1 2.1:²²

PNG is of the view that had maintenance and integrity management practices on the Salvus to Galloway pipeline segment been more completely executed over the past 20-plus years, the cost and scope of the project activities proposed in the Application could have potentially been mitigated to some extent. However, this would be limited to incremental costs associated with repair quantities. This is because the high costs associated with the planning, logistics, and access to work areas, which are generally independent of the total number of repairs to be conducted, would be expected to remain relatively unchanged and in some instances would have been incurred multiple times over the past 20 years had previously deferred work been conducted.

A significant contributor to both cost and scope of the proposed Project and associated activities is the site remoteness, access and construction

²⁰ BCOAPO Final Argument, p. 3.

²¹ Please see, for example, p. 22 of Exhibit B-1: “With the subsequent loss of some of its largest industrial customers, PNG managed certain activities such as right of way vegetation management, pipeline anomaly investigation and repair, and geohazard mitigation with a view to make prudent maintenance decisions in consideration of the potential for increased costs, the lower volume and operating pressures of this pipeline segment, the financial capacity of PNG, and the potential for adverse rate impacts on customers already subject to very high delivery rates” (underlining added). Indeed, at p. 5 of the BCOAPO Final Argument, BCOAPO seems to acknowledge at least PNG’s position on this: “[r]elying on the evidence on the record, PNG asserts that the status quo is not an option any more. ‘Following more than two decades of ‘prudently deferring certain maintenance and integrity management practices in order to operate the utility without the contribution of significant industrial customers, PNG must now look to undertake projects and investment that allow for the significant repair and upgrade of aged assets in order to safeguard the integrity and safety of its pipeline system’” (with BCOAPO quoting from the PNG Final Argument).

²² Exhibit B-4. In PNG’s response to BCOAPO IR 2.2 (also found in Exhibit B-4), PNG noted that “[i]n general, deferring maintenance and integrity practices does increase the future cost of performing the activities”, but “[t]he degree to which this is true is activity, asset, and location specific” (underlining added).

complexities, and the legacy of the original construction quality. As such, limiting the number of times the pipe is accessed can help reduce costs but must be weighed against any potential impacts to the reliable provision of gas service.

PNG believes it has maintained an appropriate balance between costs and reliability over the operation of the pipeline but believes that in order to continue the safe reliable operation of the pipeline the work proposed in the Project is required.

19. BCOAPO did not seek to file opposing or other evidence, and did not do so.

5. RATE IMPACT

20. BCOAPO asks that “the Commission direct PNG to formalize and file a rate impact mitigation plan as part of the forthcoming RECAP CPCN Application.”²³ Respectfully, in PNG’s view, no direction in this regard is required or should be made.

21. PNG included a discussion of rate mitigation strategies in the present Application as well as its IR responses, though noting as well the limitations on putting forward a conclusive set of measures at this time and indicating that it would address these matters in future revenue requirements applications.²⁴ PNG’s next revenue requirements application will cover a two- or three-year period commencing in 2022.²⁵

22. Further, although not to date posted on the BCUC website, PNG filed its RECAP CPCN Application on March 5, 2021. That application includes a section entitled “Future Rate Impact Mitigation” (6.5.3) starting at p. 129, addressing such matters as prospective deferral accounts.

23. In PNG’s respectful view, it is at this stage premature to go further. PNG takes rate

²³ BCOAPO Final Argument, pp. 4, 16.

²⁴ Please see, for example, pp. 106-111 of Exhibit B-1; Exhibit B-2, PNG’s responses to BCUC IR1 33; Exhibit B-4, PNG’s responses to BCOAPO IR1 3.

²⁵ Exhibit B-2, PNG response to BCUC IR1 33.5.1. The Project costs would be recovered in rates beginning in 2022, rising in 2023 with the full impact of the capital spend being recovered in rates in 2024. The revenue from new industrial customers associated with RECAP is expected to begin in 2022, rising in 2023 and 2024 with the full impact of the revenue occurring in 2025: Exhibit B-2, PNG response to BCUC IR1 32.9.

impacts very seriously, and in no way does the first sentence of this paragraph reflect the contrary; rather, it reflects PNG's commitment to ensuring that any rate mitigation plan it puts forward for approval is:

- (a) developed as fully as possible in light of the circumstances as they evolve; and
- (b) addressed both in the right forum and in light of an evidentiary record that is as certain as possible by the time a BCUC determination is sought.

24. The variables that will impact the nature and extent of rate mitigation that may be required include whether either of PNG's pending CPCN applications will be approved. PNG anticipates filing its next revenue requirements application in the latter part of 2021, by which point it hopes to have greater clarity in this regard.

25. Rate mitigation addressed as part of a revenue requirements application can and would take into account as well the full range of relevant revenues and cost of service items, over and above a given CPCN, that factor into rates,²⁶ and would be subject to the relevant rate-making powers of the BCUC. As the evidentiary record reflects, there are other factors that will have an impact on customer rates in the near future, including the full amortization of the LNG Option Fee deferral account, an increase in provision from the phase-in of negative salvage, the expiry of the "Let Down Station" (LDS) #2 contract, and the amortization of deferred shared corporate services costs.²⁷

6. CONCLUSION

26. In all the circumstances set out above and in the remainder of the record on this Application, PNG confirms its request that the BCUC grant the CPCN and the order of which a draft is included at Appendix A to Exhibit B-1.

²⁶ Exhibit B-1, pp. 107-111.

²⁷ Exhibit B-1, p. 111; Exhibit B-6, PNG response to BCUC IR2 49.1.1.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated at Vancouver, British Columbia this 30th day of March 2021.

PACIFIC NORTHERN GAS LTD.

Original on file signed by:

Gordon Doyle

Vice President, Regulatory Affairs, Legal & Gas Supply